



## DC Children and Youth Investment Trust Corporation

Financial Statements, Schedule of  
Expenditures of Federal Awards and  
Independent Auditors' Reports Required  
by *Government Auditing Standards* and  
OMB Circular A-133

For the Year Ended September 30, 2010

DC Children and Youth Investment  
Trust Corporation

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Financial Statements, Schedule of Expenditures of  
Federal Awards and Independent Auditors'  
Reports Required by *Government Auditing Standards*  
and OMB Circular A-133

For the Year Ended September 30, 2010

# DC Children and Youth Investment Trust Corporation

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## Independent Auditors' Report

To the Board of Directors of  
DC Children and Youth Investment Trust Corporation  
Washington, D.C.

We have audited the accompanying statement of financial position of the DC Children and Youth Investment Trust Corporation (the Corporation) for the year ended September 30, 2010, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*BDO USA, LLP*

January 31, 2013

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## Financial Statements

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# DC Children and Youth Investment Trust Corporation

## Statement of Financial Position

<i>September 30,</i>	<i>2010</i>
<b>Assets</b>	
Cash and cash equivalents	\$ 8,623,502
Grants receivable	1,194,912
Prepaid expenses	243,112
Furniture and equipment, net	58,200
<b>Total assets</b>	<b>\$ 10,119,726</b>
<b>Liabilities and Net Assets</b>	
<b>Liabilities</b>	
Accounts payable and accrued expenses	\$ 292,973
Grants payable	1,941,019
Refundable advances	4,926,949
Agency liability	1,493,736
Deferred rent	40,329
Deferred compensation	76,215
<b>Total liabilities</b>	<b>8,771,221</b>
<b>Net assets</b>	
Unrestricted	529,538
Temporarily restricted	818,967
<b>Total net assets</b>	<b>1,348,505</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,119,726</b>

*See accompanying notes to financial statements.*

# DC Children and Youth Investment Trust Corporation

## Statement of Activities

<i>Year ended September 30,</i>	Unrestricted	Temporarily Restricted	2010 Total
<b>Support and revenue</b>			
Grants and contributions	\$ 18,262,731	\$ -	\$ 18,262,731
Interest	34,391	-	34,391
Registration fees	54,950	-	54,950
In-kind contributions	3,851,000	-	3,851,000
Net assets released from restriction:			
Satisfaction of program restrictions	444,522	(444,522)	-
<b>Total revenues</b>	<b>22,647,594</b>	<b>(444,522)</b>	<b>22,203,072</b>
<b>Expenses</b>			
<b>Program services</b>			
DC initiatives	12,686,083	-	12,686,083
Therapeutic intervention	1,024,307	-	1,024,307
Project My Time	120,628	-	120,628
Other programs	1,463,366	-	1,463,366
Mayor's programs	4,389,210	-	4,389,210
Summer youth programs	1,631,863	-	1,631,863
Literacy	564,696	-	564,696
Private youth programs	93,821	-	93,821
<b>Total program services</b>	<b>21,973,974</b>	<b>-</b>	<b>21,973,974</b>
<b>Supporting services</b>			
Management and general	1,440,327	-	1,440,327
Fundraising	272,642	-	272,642
<b>Total supporting services</b>	<b>1,712,969</b>	<b>-</b>	<b>1,712,969</b>
<b>Total expenses</b>	<b>23,686,943</b>	<b>-</b>	<b>23,686,943</b>
<b>Change in net assets</b>	<b>(1,039,349)</b>	<b>(444,522)</b>	<b>(1,483,871)</b>
<b>Net assets, beginning of year</b>	<b>1,568,887</b>	<b>1,263,489</b>	<b>2,832,376</b>
<b>Net assets, end of year</b>	<b>\$ 529,538</b>	<b>\$ 818,967</b>	<b>\$ 1,348,505</b>

*See accompanying notes to financial statements.*

# DC Children and Youth Investment Trust Corporation

## Statement of Cash Flows

<i>Year ended September 30,</i>	<b>2010</b>
<b>Cash flows from operating activities</b>	
Change in net assets	\$ (1,483,871)
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>	
Depreciation and amortization	33,514
Changes in assets and liabilities:	
Grants receivable	52,539
Prepaid expenses	(19,768)
Accounts payable and accrued expenses	22,102
Grants payable	1,130,683
Refundable advances	704,596
Agency liability	(1,419,580)
Deferred rent	37,276
Deferred compensation	76,215
<b>Net cash used in operating activities</b>	<b>(866,294)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(866,294)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>9,489,796</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 8,623,502</b>

*See accompanying notes to financial statements.*



# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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### 1. Organization and Summary of Significant Accounting Policies

#### *Organization*

The DC Children and Youth Investment Trust Corporation (the Corporation) was incorporated in June 1999 to link public and private resources, creativity and commitments to strategically address the long-term needs of children, youth and families in the District of Columbia (DC). Its mission is to design strategies that consistently promote the importance of investment in our children and youth; to support the development of strategic alliances to strengthen the quality, quantity and accessibility of services and opportunities that foster the healthy development of children and youth; and to create an evaluation framework designed to measure the effectiveness of individual programs and youth serving agencies throughout DC. The Corporation's activities are funded primarily from grant funds received directly from or passed through the DC government and its agencies.

#### *Basis of Accounting*

The financial statements of the Corporation have been presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

#### *Cash Equivalents*

The Corporation considers all money market funds to be cash equivalents.

#### *Furniture and Equipment and Related Depreciation and Amortization*

Furniture, fixtures and computers are stated at cost and are being depreciated using the straight-line method over estimated useful lives of five years, with no salvage value. Software is recorded at cost and is amortized using the straight-line method over three years. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. When assets are sold or otherwise disposed of, the assets and related depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations.

#### *Classification of Net Assets*

The net assets of the Corporation are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Corporation's operations.
- Temporarily restricted net assets are restricted by donors for specific purposes or future periods.

#### *Revenue Recognition*

The Corporation receives federal and non-federal cost-reimbursable grants directly from or passed through from the DC government and its agencies. The Corporation has classified these grants as exchange transactions and, accordingly, recognizes revenue based on allowable direct and

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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indirect costs incurred. Funds received under these grants by the Corporation in advance of incurring allowable costs are reported as refundable advances in the accompanying statement of financial position.

The Corporation reports gifts of cash and other assets as unrestricted and available for general operations unless specifically restricted by the donor. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the accompanying statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

### *New Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, to provide a consistent definition of fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. Some of the amendments clarify the application of existing fair value measurement and disclosure requirements, while other amendments change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 31, 2011. The application of this guidance will only affect disclosures in future financial statements and currently is not expected to have an impact on the Corporation's financial statements.

### *Donated Goods*

In-kind contributions are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value as provided by the donor, at the date of receipt. In-kind contributions consist of contributed products.

### *Functional Allocation of Expenses*

The Corporation allocates salaries to the program and supporting services reported in the accompanying statement of activities based upon the actual amount of time worked in each area. Fringe benefits are allocated to program and supporting services based on direct labor costs, and general and administrative expenses are allocated to program and supporting services proportionately based on direct costs.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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of revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

### 2. Grants Receivable

As of September 30, 2010, grants receivable represent amounts due of \$755,930 from the District of Columbia Government (DC Government) under a federal award grant from the Department of Youth Rehabilitation Services and contributions and grants from other organizations unconditionally promised to the Corporation of \$438,982. All amounts are due within one year and are considered to be fully collectible.

### 3. Furniture and Equipment

Furniture and equipment are as follows:

<i>September 30,</i>	<b>2010</b>
Furniture and fixtures	\$ 99,912
Computers and equipment	90,939
Software	6,998
Total furniture and equipment	197,849
Less: Accumulated depreciation and amortization	(139,649)
Furniture and equipment, net	\$ 58,200

Depreciation and amortization expense was \$33,514 for the year ended September 30, 2010.

### 4. Grants Payable

The Corporation awards sub-grants to nonprofit organizations operating in the District of Columbia Metropolitan Area. At September 30, 2010, \$1,941,019 is payable for grant expenses incurred by the subrecipients but not yet reimbursed by the Corporation.

### 5. Agency Liability

The Corporation receives funds from the District of Columbia specifically intended for community-based providers to fund specific programs or to be held in trust, as directed by the District of Columbia. As of September 30, 2010, agency funds were available for the following programs:

<i>September 30,</i>	<b>2010</b>
Children and Youth Investment Collaborative	\$ 222,730
Baseball stadium	1,041,278
Other programs	194,663
Supplemental Appropriation by the DC Council	35,065
Total	\$ 1,493,736

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets of the Corporation are available for the following programs:

<i>September 30,</i>	<b>2010</b>
Project My Time	\$ 252,576
Department of Youth Rehabilitative Services	165,000
Tennis Opportunities	143,193
Building Bridges	116,833
Girls Achieving a Meaningful Experience	80,937
Youth Mentoring	39,933
Collaboration for Building After School Systems	17,682
Youth Transition	2,813
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 818,967</b>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or through the passage of time. For the years ended September 30, 2010, net assets released from restrictions were as follows:

<i>September 30,</i>	<b>2010</b>
Satisfaction of program restrictions:	
Project My time	\$ 314,078
Tennis Opportunities	7,114
Literacy	41,625
Summer Youth Programs	81,705
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 444,522</b>

### 7. Commitments, Risks and Contingencies

#### Concentration of Credit Risk

The Corporation's cash is held in accounts at one financial institution. The amount at the bank at times may exceed the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk. As of September 30, 2010, the amount in excess of the FDIC insured limit of \$250,000 was \$8,123,502. Under an agreement with the Corporation, the financial institution and the Federal Reserve Bank, the financial institution is required to collateralize any/all portions of funds held by the Corporation that are not covered by the FDIC. The financial institution monitors the Corporation's deposits against the collateral on a daily basis and, should there be a shortfall, additional collateral will be sent to the Federal Reserve Bank that same day.

As of September 30, 2010, there was no collateral at the Federal Reserve Bank on behalf of the Corporation.

#### Concentration of Risk - Major Grantor

The Corporation recognized \$17,961,490, or 81%, of its total revenue from the DC Government for the year ended September 30, 2010. While the Corporation does not anticipate any reduction in funding and is actively pursuing additional funding sources, a significant decline in funding from the DC Government could have an adverse impact on the Corporation's operations.

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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### Office Lease

The Corporation entered into a noncancelable operating lease for office space located in Washington, DC, which expired in October 2012. In February, 2012, the Corporation extended the lease which will expire in October, 2014. The lease provides for 3% annual rent increases over the term of the lease. The rent increases and the effect of this have been recorded as a deferred rent liability in the accompanying statement of financial position. The Corporation is responsible for its proportionate share of real estate taxes and operating and maintenance costs of the landlord.

The future minimum rental payments required under this lease, net of sublease income, as of September 30, 2010 are as follows:

#### *For the Year Ending September 30,*

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2011	\$ 393,427
2012	405,230
2013	388,939
2014	398,670
2015	33,249
Total	\$ 1,619,515

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Rent expense for the year ended September 30, 2010 was \$412,868.

### Software License

On July 1, 2009, the Corporation entered into a five-year license agreement to manage grants and to track participant services and outcomes. The agreement also provides for a software license, equipment for ongoing maintenance, support and training. Under the agreement, \$167,625 has been recorded as a prepaid expense as of September 30, 2010. Future payments required under this software license agreement as of September 30, 2010, are as follows:

#### *For the Year Ending September 30,*

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2011	\$ 223,500
2012	223,500
2013	167,625
Total	\$ 614,625

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### Federal Grants

The Corporation receives federal grants that are subject to specific compliance requirements and review and audit by the grantor or their representatives. Such audits could result in requests for reimbursement by the grantor or agency for expenses disallowed under the terms and conditions specified in the grant agreements.

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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In the opinion of management, the net effect of any disallowances or adjustments resulting from any of these activities would not be material to the Corporation's financial position. Therefore, no provision has been made for any liability that may result from such audits.

### 8. Related Party Transactions

The Corporation's bylaws require that the Board of Directors be composed of not more than seven members, of which four are to be appointed by the Mayor of the District of Columbia and three are to be appointed by the DC Council. In addition, the Corporation receives the majority of its support from grants received directly from or passed through from the DC Government to carry out DC Title XXIV, Children and Youth Initiative Establishment Act of 1999.

During the year ended September 30, 2010, the Corporation received \$19,104,332 from the DC Government, of which \$4,926,949 is reflected as refundable advances in the accompanying statement of financial position.

### 9. Pension Plan

The Corporation sponsors a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code, which is available to all full-time employees. The plan is funded by employer contributions representing 100% of employee contributions up to a maximum of 5% of the employee's annual salary. Employer contributions are made on behalf of employees who are at least 18 years of age. Both employer and employee contributions are fully vested. Pension expense was \$65,948 for the year ended September 30, 2010.

### 10. Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. No provision for income taxes was required for the year ended September 30, 2010, as the Corporation had no net unrelated business income.

The Corporation follows the provisions of FASB ASC 740 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The Corporation does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

The Corporation has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Corporation filed Internal Revenue Service Form 990 and Form 990-T tax returns, as required, and all other applicable returns in jurisdictions where it is required. The Corporation believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2006. However; the Corporation is still open to examination by taxing authorities for the current year and the prior three years. For the years ended September 30, 2010, no interest or penalties were recorded or included in the statement of activities.

# DC Children and Youth Investment Trust Corporation

## Notes to Financial Statements

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### 11. Litigation

On June 6, 2011, the District of Columbia Attorney General ("DC AG") filed a civil enforcement action against now-former Councilman Harry L. Thomas, Jr. for monies that he unlawfully diverted in 2007 and 2009 from grants managed by the Corporation. Mr. Thomas settled the DC AG enforcement action on July 22, 2011. On January 5, 2012, The U.S. Attorney's Office for the District of Columbia ("U.S. Attorney") filed a criminal complaint against Mr. Thomas based on the funds he unlawfully diverted. Mr. Thomas pled guilty in the District Court on January 6, 2012. As a result of a settlement agreement with the DC AG and a restitution order in the District Court, Mr. Thomas is required to repay the District the funds he misappropriated. The DC AG and the U.S. Attorney also settled with the principals of the organizations found to have assisted Mr. Thomas in his unlawful actions; these organizations had received grants from the Corporation.

The Trust has fully cooperated with the U.S. Attorney and the DC AG offices in their investigations of matters related to Mr. Thomas or other parties' misappropriation of funds. The Corporation has not been named in any suit filed by the U.S. Attorney or the DC AG and accordingly management does not believe there are any outstanding commitments or contingencies related to this matter.

### 12. Subsequent Events

The Corporation evaluated subsequent events through January 31, 2013, which is the date the financial statements were available to be issued.

As discussed in Note 11 above, the Corporation had a litigation matter with a subrecipient.

No other material subsequent events were noted that required adjustment to or disclosure in these financial statements.

Schedule of Expenditures  
of Federal Awards

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# DC Children and Youth Investment Trust Corporation

## Schedule of Expenditures of Federal Awards

*For the year ended September 30, 2010*

Federal Grantor/Pass-through Grantor/Program Title	Agency or Pass-through Grant Number	Federal CFDA Number	Federal Expenditures
<b>US Department of Health and Human Services:</b>			
<i>Pass-through from the District of Columbia</i>			
<i>Department of Human Services:</i>			
Children's System of Care Family Development Grant	DMH-07-041-17-0193	Unknown	\$ 562,377
Access to Recovery	N/A	93.275	105,000
Subtotal US Department of Health and Human Services			667,377
<b>Federal Appropriation Funds:</b>			
<i>Pass-through from the District of Columbia</i>			
<i>Department of Youth Rehabilitation Services</i>			
Department of Labor	N/A	17.261	153,832
DYRS Lead Entity- Service Coalition - Federal payment funds	N/A	Unknown	3,004,592
Subtotal District of Columbia			3,158,424
Total Expenditures of Federal Awards			\$ 3,825,801

*See accompanying notes to schedule of expenditures of Federal awards.*

# DC Children and Youth Investment Trust Corporation

## Notes to Schedule of Expenditures of Federal Awards

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred. These expenses are included in grants and contributions in the statement of activities. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in the financial statements.

### 2. Subrecipients

During the year ended September 30, 2010, the Corporation awarded grants to subrecipients which are included in the Schedule of Expenditures of Federal Awards as follows:

Federal CFDA Number/ Grant Number	Program Name / Project Name	Amount Provided to Subrecipients
DMH-07-041-17-0193	Children's System of Care Family Development Grant	\$ 562,377
17.261	Department of Labor	\$ 153,832
N/A	DYRS Lead Entity - Service Coalition - Federal Payment Funds	\$ 2,983,543

### 3. Reconciliation to Financial Statements

For the year ended September 30, 2010, the Corporation recognized \$3,825,801 of revenue from federal grants and \$14,436,930 in revenue from non-federal grants that is included in grants and contributions revenue in the accompanying statement of activities. The Corporation recognizes federal revenue based on allowable direct and indirect costs incurred.

Reports Required by *Government Auditing Standards*  
and OMB Circular A-133

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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Board of Directors of  
DC Children and Youth Investment Trust Corporation  
Washington, D.C.

We have audited the financial statements of the DC Children and Youth Investment Trust Corporation (the Corporation) as of and for the year ended September 30, 2010, and have issued our report thereon dated January 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs listed as 2010-01, 2010-02 and 2010-03 to be material weaknesses in internal control over financial reporting.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described listed as 2010-01, 2010-02 and 2010-03 in the accompanying schedule of findings and questioned costs to be significant deficiencies.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-02 and 2010-03.

The Corporation's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the Audit Committee, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BDO USA, LLP*

Bethesda, Maryland  
January 31, 2013



## **Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

To the Board of Directors of  
DC Children and Youth Investment Trust Corporation  
Washington, D.C.

### **Compliance**

We have audited the DC Children and Youth Investment Trust Corporation (the Corporation) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended September 30, 2010. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

As described in items 2010-04, 2010-05, and 2010-06, in the accompanying schedule of findings and questioned costs, the Corporation did not comply with the requirements regarding the schedule of federal awards, subrecipient monitoring and cash management that are applicable to the Children's System of Care Family Development Grant and the Department of Youth Rehabilitation Services, DYRS Lead Entity programs. Compliance with such requirements is necessary, in our opinion, for the Corporation to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.



## Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-04 and 2010-05 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-06 to be a significant deficiency.

The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the Audit Committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BDO USA, LLP*

Bethesda, Maryland  
January 31, 2013

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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### Section I - Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☒ Yes ☐ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards Section

Internal control over major programs:

- Material weakness (es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weakness (es)? ☒ Yes ☐ None reported

Type of auditors' report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?

☒ Yes ☐ No

Identification of major programs:

CFDA/Contract Number

DMH-07-041-17-0193\*

Name of Federal Program or Cluster

U.S. Department of Health and Human Services:  
Children's System of Care Family  
Development Grant

Unknown\*

Federal Appropriation Funds:  
DYRS Lead Entity - Service Coalition -  
Federal Payment Funds

*\* Pass-through award*

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No



# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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### Section II - Financial Statement Findings

#### 2010-01: Financial Statement Close Process and Controls over Financial Reporting

##### *Finding and Recommendation:*

During the course of the audit, we noted that significant adjustments were made to correct the balance of the agency liability, grants payable and refundable advances, which resulted in audit adjustments that decreased agency liability and increased refundable advances as of September 30, 2010 by a net amount of \$6.9 million during the year as well as adjustments to record expenses in the proper period. We believe that the occurrence of these adjustments could have been reduced, if not totally avoided, had the general accounts been thoroughly analyzed and reviewed during the preparation of the regular monthly financial statements. In addition, management should implement a monthly process to reconcile and review these significant balance sheet accounts. This process would ensure that these balance sheet accounts are adequately stated and the related revenue and expenses are recognized in the proper period.

The proper review of contracts and agreements is imperative to ensure the proper recording of revenue in the appropriate period. We recommend that management review its policies and procedures related to recognition of revenue and ensure that the process has sufficient controls that are designed to ensure the proper recording of revenue. If necessary, any unusual items should immediately be investigated and adjusted in the books to minimize the significance of year-end adjusting journal entries. As in the prior year, we continue to note that information provided to management may not be accurate, thereby affecting management decisions. Furthermore, the probability that additional errors could occur and go undetected for a long time is greatly increased.

##### *Views of Responsible Officials and Planned Corrective Actions:*

Management will implement accounting policies and procedures that incorporate monthly reconciliation of significant balance sheet accounts. Further, procedures will be implemented to provide monthly review (and update, as necessary) of all entries denoting agency liabilities and refundable advances. At the close of the month, accurate recordation of agency liability and refundable advances will be reconciled to the general ledger.

In addition, each grant Memorandum of Understanding (MOU) and resulting Agreement will be reviewed with and by Program Directors, Program Managers and the accounting staff to ensure that revenues and expenditures are properly coded prior to disbursement of any funding under the applicable agreement. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

#### 2010-02: Documentation and Approval Process

##### *Finding and Recommendation:*

During the course of our audit, we noted that supporting documentation could not be located for some of the items that were tested, and some files had missing documentation. In addition, we noted that documentation was not received prior to the release of funds. Also, we noted during our discussions, grant personnel have the ability to generate invoices related to grants without the

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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finance department's knowledge. This could lead to transactions occurring without being adequately recorded in accounting records.

The Corporation should ensure proper documentation is obtained prior to the release of funds. The Corporation should establish and follow a record retention policy for federal and other grants. In addition, the Corporation should ensure that all invoices are generated in the accounting department which will ensure transactions are properly recorded in the correct period.

### *Views of Responsible Officials and Planned Corrective Actions:*

Management will implement and enforce policies and procedures between the accounting and grants department that will ensure that local, Federal and private funds are immediately identified and accurately coded in the general ledger, identifying each according to their respective sources. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

In addition, Management will ensure that all supporting documentation is kept on file for a period not less than thirty-six (36) months after the close of each Federal grant in digital or hardcopy format unless otherwise mandated by grant regulations. Further, no funds will be disbursed without receipt, inspection and approval of all supporting documentation. Grant administrators of the Trust will not have any actual or implied authority to generate invoices on behalf of any grantee.

### **2010-03: Misappropriation of Cash by Subrecipient**

#### *Finding and Recommendation:*

During the course of the audit, we became aware that a DC Councilman had unlawfully diverted funds intended for a subrecipient of the Corporation for personal use. This individual later plead guilty to this unlawful diversion of funds and will be required to repay these funds. The fraud occurred due to the direct actions and intent of the DC Councilman. The misappropriation of cash was also determined to have occurred over multiple years based on information provided by attorneys dealing with this case.

We recommend that management review and implement stronger policies and procedures related to subrecipients to ensure that the process has sufficient controls related to monitoring of subrecipients. This should include regular site visits by management of those subrecipients, requirement that regular financial reports be submitted. In addition, if those subrecipients are required to have OMB A-133 audits, those audits should be submitted and reviewed by the Corporation.

### *Views of Responsible Officials and Planned Corrective Actions:*

The Corporation shall ensure that all internal controls and policies and procedures mandated for subrecipients granted under a competitive process also be strictly adhered to for subrecipients receiving "earmarked" and "pass-through funding". These policies and procedures will be ratified and implemented on or before April 1st, 2013.

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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### Section III - Federal Award Findings and Questioned Costs

#### 2010-04: Schedule of Expenditures of Federal Awards

Information on Federal Program(s) - U.S. Department of Health and Human Services  
Children's System of Care Family Development Grant  
Grant Award Number: DMH-07-041-17-0193

Department of Youth Rehabilitation Services (DYRS)  
DYRS Lead Entity - Service Coalition - Federal payment funds

Criteria - OMB Circular A-133, section 310(b) indicates:

Schedule of expenditures of Federal awards (SEFA). The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

1. List individual Federal programs by Federal agency. For federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision with the Federal agency.
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the Catalog of Federal Domestic Programs (CFDA) number or other identifying number when the CFDA information is not available.
4. Include notes that describe the significant accounting policies used in preparing the schedule.
5. To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
6. Include, in either the schedule or a note to the schedule, the value of Federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

Condition - The SEFA that was provided by the Corporation was not complete, required several discussions with grantors to determine source of the funds and adjustments to be presented in accordance with OMB Circular A-133, section 310(b). Based on the review of the SEFA initially presented, we had the following observations:

- Certain CFDA numbers or program titles were invalid or incomplete
- The SEFA omitted awards that were federal and required to be on the SEFA

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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### Questioned Costs - None

Context - This is a condition identified per review of the Corporation's compliance with specified requirements.

Effect - The SEFA may not be fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Cause - The Corporation does not have policies and procedures in place to ensure that charges and costs between federal and non federal programs are separately tracked. In addition, the Corporation does not receive adequate notification from grantors whether funds and grants received are federal funds and should be shown on the SEFA.

Recommendation - We recommend that the Corporation implement policies and procedures between the accounting and grants department to ensure federal funds are immediately identified and adequately recorded in the general ledger using a general ledger code to identify them as federal funds.

### Views of Responsible Officials and Planned Corrective Actions-

Management will implement and enforce policies and procedures between the accounting and grants department that will ensure that local, Federal and private funds are immediately identified and accurately coded in the general ledger, identifying each according to their respective sources.

In addition, Management will ensure that all supporting documentation is kept on file for a period not less than thirty-six (36) months after the close of each Federal grant in digital or hardcopy format unless otherwise mandated by grant regulations. Further, no funds will be disbursed without receipt, inspection and approval of all supporting documentation. Grant administrators of the Trust will not have any actual or implied authority to generate invoices on behalf of any grantee. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

### **2010-05: Subrecipient Monitoring**

Information on Federal Program(s) - U.S. Department of Health and Human Services  
Children's System of Care Family Development Grant  
Grant Award Number: DMH-07-041-17-0193

Department of Youth Rehabilitation Services (DYRS)  
DYRS Lead Entity - Service Coalition - Federal payment funds

Criteria - The OMB Circular A-133 Compliance Supplement indicates that a grantee must have policies and procedures in place to (1) monitor the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient is administering the federal awards in compliance with laws and regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (2) ensure required audits are performed and require the subrecipient to take prompt corrective action on any audit findings; and (3) evaluate the impact of the subrecipient's activities on the granting organization's ability to comply with the applicable federal regulations.

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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Condition - We reviewed four sub-grantee agreements totaling \$3,304,764 and noted the following during our procedures:

- None of the sub-grantees selected identified the CFDA title and number, amount of award, award name, or name of federal agency.
- None of the sub-grantee files contained evidence that the Corporation verified whether the contractor was suspended or debarred from doing business with the federal government.
- We noted that site visits were performed by a consultant hired by the Corporation; however there was no documentation by the consultant noting whether the site visits identified deficiencies related to programs and timely corrective actions, if any.

Questioned Costs - Not determinable

Context - This is a condition identified per review of the Corporation's compliance with specified requirements.

Effect - Failure to verify whether a sub-grantee is suspended or debarred prior to award of a subgrant could result in ineligible sub-grantees being awarded contracts. In addition, this could lead to improper usage of funds and increase the associated fraud risk. The Corporation has no procedures in place to ensure that contracts are awarded only to eligible sub-grantees.

Cause - Comprehensive policies and procedures are not in place to ensure that compliance with the subrecipient requirements are met.

Recommendation - We recommend that the Corporation establish effective policies and procedures to ensure that only eligible parties are awarded contracts with federal funds. The policies and procedures should include the following:

- Informing the sub-grantee of the CFDA title and number, amount of award, award name, or name of federal agency.
- Verify whether the sub-grantee was suspended or debarred from doing business with the federal government.
- Ongoing monitoring of the subgrantees through desk reviews and regular site visits.

### Views of Responsible Officials and Planned Corrective Actions -

Management will implement and enforce policies and procedures to ensure that only eligible parties are awarded contracts with Federal funds including but not limited to verification of suspension or debarment of each applicant. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

Prior to execution of sub-awardee agreements, all awardees will be informed of the CFDA title and number, amount of award, award name, or name of federal agency. Further, Management will implement procedures providing for the continual monitoring of sub-awardees via desk monitoring and or site visits by Trust or contracted personnel. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

# DC Children and Youth Investment Trust Corporation

## Schedule of Findings and Questioned Costs

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### 2010-06: Cash Management

Information on Federal Program(s) - U.S. Department of Health and Human Services  
Children's System of Care Family Development Grant  
Grant Award Number: DMH-07-041-17-0193

Department of Youth Rehabilitation Services (DYRS)  
DYRS Lead Entity - Service Coalition - Federal payment funds

Criteria - The provisions of OMB Circular A-110, *Cost Principles for Non-Profit Organizations*, require that recipients keep track of all interest earned on federal advances and reflect interest as an offset to project costs for amounts earned over \$250.

Condition - The Corporation receives grants and appropriations in advance of expending funds. All funds are kept in the Corporation's operating account, which earns interest. Interest earned on federal funds is not tracked separately. Also, it is not returned for amounts earned over \$250.

Questioned Costs - Not determinable

Effect - The Corporation is not in compliance with OMB Circular A-110.

Cause - The pass-through appropriation that the Corporation has with the DC Government does not indicate that the interest earned should be reimbursed or added to the program total.

Recommendation - We recommend that the Corporation develop a schedule to track interest earned on federal funds and that the interest be either remitted back to the grantor or included in the program funding as directed by the grantor.

### Views of Responsible Officials and Planned Corrective Actions -

Management will develop a schedule to track interest earned on Federal funds and that the interest be either remitted back to the grantor or included in the program funding as directed by the grantor. These policies and procedures will be ratified and implemented on or before April 1st, 2013.

# DC Children and Youth Investment Trust Corporation

## Summary Schedule of Prior Auditing Findings and Management's Corrective Action Plan

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### Status of Prior Year Findings of Noncompliance

#### Individuals Responsible for Corrective Action Plan

Mr. Ed Davies  
Executive Director  
(202) 939-1383

Questioned Programs: - U.S. Department of Health and Human Services  
Children's System of Care Family Development Grant  
Grant Award Number: DMH-07-01-17-01

### 2009-01, 2009-02, 2009-03: Financial Statement Audit Findings

These findings were financial statement audit findings related to improperly recording activity for the agency liability, refundable advance accounts which resulted in various audit adjustments. In addition, these findings also related to improperly recording journal entries directly to the beginning of the year net assets, resulting in an understatement of expenses.

#### Current Year Status:

These finding have been repeated in the current year.

#### Management's Corrective Action Plan:

Refer to finding 2010-01 for management's corrective action plan.

### 2009-04: Financial Statement Audit Findings

This finding related to individuals processing and recording Automatic check handing transfers who is not an authorized check signor.

#### Current Year Status:

This finding has been repeated in the current year.

#### Management's Corrective Action Plan:

Refer to finding 2010-02 for management's corrective action plan.

### 2009-05: Cash Management

#### Prior Year Finding:

The Corporation receives grant advances. All funds are kept in the Corporation's operating account, which earns interest. Interest earned on federal funds is not tracked separately. Also, it is not returned to the grantor or added to the total program funding.

# DC Children and Youth Investment Trust Corporation

## Summary Schedule of Prior Auditing Findings and Management's Corrective Action Plan

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Further, there is no formalized process to ensure that interest earned on federal funds is reimbursed to the grantor or added to the program total.

### Current Year Status:

This finding has been repeated in the current year.

### Management's Corrective Action Plan:

Refer to finding 2010-06 for management's corrective action plan.